

Minutes
Joint Legislative Program Evaluation Oversight Committee Meeting
May 4, 2015

Members Present

Senator Fletcher Hartsell, Chair
Senator Stan Bingham
Senator Ben Clark
Senator Valerie Foushee
Senator Rick Gunn
Senator Ralph Hise
Senator Shirley Randleman
Senator Jeff Tarte, Advisory Member

Representative Craig Horn, Chair
Representative Jean Farmer-Butterfield
Representative Pat Hurley
Representative Rena Turner

Call to Order

Representative Craig Horn, Chair, called the meeting to order.

Senator Clark moved to approve the April 13, 2015 *Minutes*. Motion carried.

Presentations and Comments

Representative Horn recognized Carol Shaw, Principal Program Evaluator, who reminded members to submit their choice of work plan projects. Final projects will be presented at the May 18th committee meeting for approval.

Representative Horn recognized Joe Coletti, Director of NC GEAR, for a slide presentation of the March 5, 2015 *NC GEAR Report to the Joint Legislative Commission on Government Operations*. Session Law 2013-360, Section 6.5 (e) required NC GEAR to submit a final report to the Program Evaluation Division.

Mr. Coletti said that NC GEAR drew upon lessons learned from similar efforts in North Carolina (GPAC I and II, Governor's study commissions, etc.) and concluded that success depended upon clear and brief communication of a few significant proposals instead of recommending a long list of proposals in a document thickened by backup justification and appendices. Furthermore, previous efforts were not fully successful because there was no mechanism to sustain innovation and implementation. NC GEAR developed 500 ideas through "ideation" sessions with agencies and experts and after testing those, 127 ideas remaining were winnowed down to the 22 proposals in the March 5 report. NC GEAR applied a prioritization matrix to identify proposals with relatively high net present value and higher likelihood of implementation. The 22 proposals could result in \$615.6 million in net present value to State government overall, \$14 million in year one and \$57 million in year two. NC GEAR addressed fundamental building blocks to sustain identification of improvements. He emphasized NC GEAR staff and agencies were continuing development and testing of a number of other initiatives, which NC GEAR will implement if NC GEAR is continued.

Representative Horn recognized members for comments, questions, and requests for further information:

Senator Ralph Hise:

- Why did NC GEAR prioritize out proposals directly relating to the agencies with the largest budgets: DHHS, Medicaid, and DPS given that the law authorizing NC GEAR required examination of all executive branch agencies?

- Response: Coletti said that some services and activities within those agencies were addressed. Medicaid was excluded because of the many unanswered questions about the direction of the program. Two of the 22 proposals did pertain to DHHS such as electronic death registrations and, as recommended by the Program Evaluation Division report, improving incentives for child support collections. NC GEAR is still engaged with public safety issues such as inmate health, job training, and recidivism. NC GEAR examined all State Government, but recommended fundamental building blocks that are needed before developing other proposals.
- **Senator Hise:** Why did NC GEAR include proposals with negative net present values? NC GEAR was supposed to address efficiencies and these did not seem consistent with that objective. One was improving regulation of pet breeders, which (Senator Hise) supported as a policy, with a negative \$1.4 million NPV. The proposal to continue NC GEAR would require 7 new permanent staff in OSBM at a negative \$4.6 million NPV.
 - Response: NC GEAR proposed the added OSBM staff to continue the NC GEAR efforts that collectively recommended over \$600 million in net present value. The report attributed the \$600 million NPV benefit to the various individual projects collectively and not solely to the proposal to add the NC GEAR staff, which although a \$1.4 million negative net present value should be considered an investment "like fixing the roof."
- **Senator Hise:** Could one not make the same argument for the pet breeder regulation proposal? Is better regulation of pet breeders considered necessary to continue the generation of savings proposals from NC GEAR?
 - Response: The Governor, Commissioner of Agriculture, Secretary of the Department of Public Safety, and Legislature were working on the pet breeder regulation proposal. He said that he would defer to that process.

Senator Jeff Tarte:

- Please describe in more detail the NC GEAR prioritization criteria and ROI methodology graphed on slide #11? I am not sure how NPV gets us value today and can you clarify that. Can you provide a list of every project proposal and where they fall relative to this quadrant chart?
 - Response: NC GEAR applied a prioritization matrix process to move along proposals for business case development that have relatively high net present value (NPV) and relative high likelihood of implementation. Slide #11 shows the relative and varying-sized potential NPV benefits of 53 proposals shown on the vertical as bubble oval areas on a 0-5 arithmetic scale. NC GEAR plotted ovals at the intercepts on the 0-5 arithmetic horizontal axis scale of likelihood of implementation. NC GEAR recommended for business case development those whose ovals plotted above the imaginary 45° diagonal plane connecting the apexes of the axes. He said that he could provide information plotting all other proposals as requested.

Senator Ben Clark:

- Slide #11 states that 53 of 73 opportunities fell above the diagonal and had potential for business case development. Slide #26 lists 22 final proposals, not 53. The dollar values on

slide #35 do not match up with the NPV dollar values on slide #11. Please explain the variations in these numbers.

- Response: We will provide an explanation. The slides reflected varying and evolving numbers developed at different stages of the budget development process that complicates things for everyone involved. As the process worked, some of the proposals listed on the charts at one stage may have fallen off later. Some are still in development or early stages of implementation and fell off. Some of the proposals such as those related to human resources for example workers compensation were combined for description onto one page or ultimately described by different language into multiple pieces to make the budget work to show people where money was coming from and going to. The Department of Cultural Resources proposal shows up as two budget lines instead of one. It was not the most straightforward way of mapping page to page to page, but that was the nature of the three kinds of work going on.
- **Senator Clark:** Please furnish an execution matrix that lists every proposal, idea, recommendation, or opportunity however termed or described, considered at every stage of the process, explaining whether or not the idea was implemented including the numbers and estimates applied purporting to show a savings or cost to the state in a straightforward, understandable way.
 - Response: An execution matrix could be produced for the 22 proposed that NC GEAR or consultants could assign values to, but they could not obtain detailed cost and benefit estimates on some of the proposals that fell out at some stage or are still under consideration, so what could be furnished may be incomplete.
- **Senator Clark:** Include the status of those that have not been completed.
 - Response: Those will be included as well.

Representative Pat Hurley:

- I live in Randolph County where the zoo is located. The proposal to transfer responsibility for state attractions from DENR to Cultural Resources described on slide #27 will put the state zoo with the state aquariums in the same agency for management. The aquariums are funded by a variety of receipts but the zoo has to beg for every dollar to spend. Will this proposal make appropriations fairer?
 - Response: The recommendations did not go into detail about how funds for the attractions would be appropriated. NC GEAR reviewed management of the attractions. How the money would be appropriated is at the discretion of the legislature.

Senator Shirley Randleman:

- Reference page 43 of the report relative to child support prioritization and how this came from PED. When the Child Support Subcommittee of the Joint Legislative Program Evaluation Oversight Committee (JLPEOC) adopted a final recommendation for legislation, we did not recommend a 75/15 percent split of federal incentive payments to counties as the NC GEAR report says. We also elected not to do the 10 percent bonus payments for employees, yet that seems to be incorporated into the NC GEAR report. Our thinking was that if the department held the 15 percent the department could update its IT software so the counties could do a better job of collecting child support and if done would draw down more federal incentive

money that could go back to the counties as resources to do a better job collecting child support. So, the recommendation in the NC GEAR report is really not the final recommendation of the JLPEOC Child Support Subcommittee. Please explain.

- Response: NC GEAR used the recommendations from the final report published by the Program Evaluation Division to match up with the budget and may have missed the actions you are describing subsequent to PED's report. NC GEAR looks forward to further action of the legislature as the idea moves forward.
- **Senator Randleman:** I would really appreciate the opportunity to work with you on that and thank you.

Senator Fletcher Hartsell

- I have the fortune or misfortune to have been the only one around when the General Assembly did GPAC I and II. I was also around when JLPEOC received the status and preliminary NCGEAR reports last June. I have some real concerns, some of which I may wish to discuss with you offline. I have a couple of technical questions then I want to return to the June 23, 2014 JLPEOC Minutes. Is there a companion technical report describing the statistical methodology and cost detail in the same order as the summary as it relates to your recommendations?
 - Response: We, yes, we have the technical data and methodology, but we did not include that within the report, but it is available.
- **Senator Hartsell:** Please provide that. And although what I just asked for relates to what Senator Clark requested, the technical data and methodology detail I am requesting is more than that and not exactly what Senator Clark requested. When you were here last June, you indicated that there would be implementing legislation that would be part of the report. Well, there is no implementing legislation that I saw as part of this report. Crossover was last week. How do you propose we implement the recommendations that NC GEAR made?
 - Response: Senator, the NC GEAR report recommendations are incorporated into the special provisions of the budget.
- **Senator Hartsell: Are all of the recommendations addressed in the proposed budget?**
 - Response: NC GEAR developed special provisions for any proposals that from the executive branch's understanding would require changes in statutes.
- **Senator Hartsell:** The PowerPoint presentation basically discusses how you developed the proposals, not necessarily the specifics of what you propose. Why did you not discuss today in more detail, if not at least in the report, the top four "big ticket" items, e.g. no discussion of school district purchasing, a little discussion of human resources management, unemployment insurance and budgeting? Why no additional detail about what was proposed?
 - Response: Again, what sets NC GEAR apart from what has been done in the past, was that we took to heart the idea that we should focus on implementation. We heard from numerous members of the legislature who are now in the cabinet or Council of State and a number of people across other states formerly engaged in such efforts, as we were starting our work on this that the implementation is the most important part. Nobody wanted a thick book or a thick set of books that would serve as a doorstop or gather

dust on bookshelves. So rather than describing things in detail in our report, we wanted to make sure that we were working with the agencies and within the executive branch and getting into the legislation into the budget document itself what is involved in accomplishing this. We focused on implementation on more than description in a report that many people might read but would not result in much action.

- **Senator Hartsell:** Well OK, I am going back to the *Minutes* of our JLPEOC meeting of last June. One thing said was that the report may well be a waste of money unless it proposes bold and innovative ideas. I don't see anything that restructures any department. I don't see anything that addresses funding formulae in any way. We were told that we might get something along those lines. I don't see these. Can you explain? We can go into some detail at a later point, but how do we address that? Can you respond? I am showing my frustration.
 - Response: For as much as we had grand ambitions for what we could accomplish things that had not been tried, we took a look at the state of state government. In June, we were two months into our work. After continuing that work and seeing what state of our information is, the ability for us to answer questions that we have in state government and the way that we are not able to manage IT projects, not able to manage human resources—those things led us to work with those agencies and to develop recommendations for the fundamental pieces of state government. The result is perhaps not the greatest thing since sliced bread, but if we can slice bread, that is a major accomplishment. Yes, some of these ideas have been recommended multiple times before, but they have not been implemented, which is why we recommended them and why we think they are still worthwhile. We did examine moving some things around including the state attractions, which the Program Evaluation Division and this committee have looked at before, although we came to different conclusions, will be a major accomplishment.

Senator Shirley Randleman

- On slide #8, NC GEAR said it had discussions with more than 30 legislators. And you are discussing as legislation, the things that are in the House budget. Correct? So, I imagine that most of your discussions so far have been with House members.
 - Response: Yes, but NC GEAR tried to reach out as much as we could to both sides.

Senator Ralph Hise

- So, if there is not a proposal in the Governor's budget specific to one of the NC GEAR items, is it safe for us to assume that the position is that the executive branch already has the authority and has already begun implementation and do not need legislation?
 - Response: NC GEAR is working on those. Attention is focused on implementation seeing and how far we can get. Some of these might fall out because of timing or other things unforeseen at the time.

Senator Stan Bingham

- Slide #4 mentions benefits the first year of \$14 million and over a ten-year period, \$615 million. Can we get some further information on the sources of these numbers? I am excited in reading this, but I need to see that information if possible.

- Response: NC GEAR can provide this.
- **Senator Bingham:** I have been interested in privatization of the motor pool for a long time. I did not understand the savings. And as Senator Hise has mentioned, this Medicaid issue has always been a big problem and everything we do or don't do is because of Medicaid "eating our lunch." Did you have any suggestions relative to Medicaid in addition to the two things you mentioned earlier?
 - Response: The vehicle privatization is much easier to address. We are focusing on the difficulties of trying to get a vehicle on Blue Ridge Road and some of the internal rules on when one can get reimbursed for one's personal vehicle. We do have some specific information on that that we can provide. The motor pool has had successes in reducing the size of the fleet and managing, but NC GEAR is examining how we get vehicles where they are needed all over the state and how to make that process better. If we can make it easier for an employee to get access to a vehicle short term, we may be able to reduce the number of permanently assigned vehicles. Both of these areas of focus have dollar value. I suggest seeking expertise elsewhere for questions about Medicaid.

Senator Fletcher Hartsell

- Relative to human resources management and system modifications, will that require a major overhaul of the current BEACON system? If so, what would that cost and how that would be addressed?
 - Response: The NC GEAR recommendations pertaining to human resources are not specific to BEACON. No impact is expected on the operations of BEACON or will require an immediate change to BEACON to be able to accomplish our proposals. Recommendations relative to enterprise resource planning software are part of the broader issue of human resource management, but are separate from BEACON.
- **Senator Hartsell:** Did NC GEAR engage in any review of funding formulae—public schools, universities, agency human resources allocations? What did you find?
 - Response: NC GEAR did examine a number of issues related to how we pay for things. But recommendations relative to formulae are challenging. There have been some issues relative to funding of cities and counties. Relative to formula programs, there were no data or information we found that would give us a basis to build a proposal.
- **Senator Hartsell: Not even any recommendations for pilot projects to do that?**
 - Response: No, we were focused on high-value short term cross-agency actions affecting state government as a whole that otherwise would be extremely difficult to get to. However, we may review these in the future. As far as pilots using randomized-control trials, there are opportunities such as social impact bonds that allow focus on other ways of doing things that are worthwhile. Ideas for pilots will more likely come from agencies, PED, the General Assembly and NC GEAR would be willing to work with whoever is directing these.

Representative Craig Horn, Chair

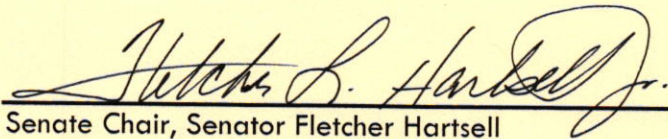
- With all due respect, frankly I think we all expected a bigger deal. We expected some major recommendations that we could get our teeth into. I appreciate the hard work done looking behind the curtain and under the bed, but it appears that you have given us a management analysis concluding that we can manage better and that comes as no surprise. We know that coming up with solutions is a challenge. That is part of the reason we looked to NC GEAR to say "Out with old and in with the new! Here is a bold idea that is going to significantly enhance how we efficiently and effectively deliver services and offer value to our taxpayers. Frankly, we had all hoped for more "boldness." We understand you are saying that "This is a *fait accompli*—that this is all a part of the Governor's budget" and we have nothing to do. "Vote yay or nay on the budget." So, I challenge you. On behalf of what I heard from the committee and from what I read of the report, I really expected a bigger deal. Much of, in fact from my cursory reading and some or almost all of the recommendations have been covered by PED activities or are currently being covered by PED activities. We need you to "Kick it up!" I am trying to be respectful, but we need more. We know how tough this is. That is what we do here—dealing with issues that have no clear, easy, "low-hanging fruit" answers. We need the stretch. This is a big concern. As for the committee, at this meeting there is no action to be taken. We have asked a number of questions and Mr. Coletti is going to get back with us with answers. The committee needs to re-read the NCGEAR report to understand what we are going to endorse. As a fellow member of the House said, "It is never over around here." We can see that this effort continues, or changes or does not continue. Understand and ask hard questions about the recommendations put forth.

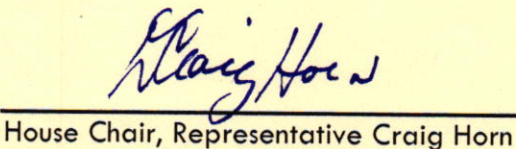
After recognition by Representative Horn, John Turcotte, PED Director, explained a spreadsheet handout prepared by PED staff composed of a listing of all 22 of the NC GEAR proposals sorted first in order as appearing in the NC report and second in descending order of estimated net present value. In addition, there is a table classifying the proposals by attribute (e.g. required additional FTE, appropriations, etc.)

Representative Horn announced that the next JLPEOC meeting would be Monday, May 18, 2015 for the purpose of reviewing the final list from committee member ranking of proposed PED 2015-2017 work plan projects.

Adjournment

With no further business, the committee adjourned.


Senate Chair, Senator Fletcher Hartsell


House Chair, Representative Craig Horn